

## 3. Published Accounts

(60)

- (a) Prepare the Published Profit and Loss account for the year ended 31/12/2016, in accordance with the Companies Acts and appropriate accounting standards, showing the following notes:
- Accounting policy note for tangible fixed assets and stock
  - Operating profit
  - Financial fixed assets
  - Tangible fixed assets.

**Profit and Loss Account of Dexter plc**  
for the year ended 31/12/2016

(35)

	€	€
Turnover (1)		1,830,000 (1)
Less Cost of Sales W1		(1,093,000)(5)
Gross Profit		737,000
Distribution Costs W2	•269,200 (4)	
Administrative Expenses W3	•395,800 (6)	(665,000)
		72,000
Other Operating Income W4		•94,000 (4)
Operating Profit		166,000
Investment Income W5		8,000 (2)
Profit on sale of land		40,000 (2)
		214,000
Interest Payable W6		(36,000)(2)
Profit on Ordinary Activities before tax (1)		178,000
Taxation		(60,000)(1)
Profit on Ordinary Activities after tax		118,000
Dividends paid		(21,000)(1)
Profit retained for year		97,000
Profit brought forward at 01/01/2016		40,000 (2)
Profit carried forward at 31/12/2016		•137,000 (3)

- Penalise 1 mark if 'Cost of Sales', 'Distribution Costs', 'Administrative Expenses' or 'Other Operating Income' shown as individual figures and not as total figures only.
- Accept correct figure only.
- Penalise 1 mark if (i) 'Distribution Costs' shown after 'Administrative Expenses', (ii) 'Profit on sale of land', 'Investment Income' shown before 'Operating Profit' or (iii) 'Interest Payable' not shown last after 'Operating Profit'.
- Apply a maximum penalty of -4 for above deductions.

**Workings:**

	€		€
<b>W1</b> Cost of Sales		<b>W3</b> Administrative Expenses	270,000 (1)
Stock 01/01/2016	83,000 (1)	+ Auditors' Fees	18,000 (1)
+ Purchases	1,065,000 (1)	+ Directors' Fees	80,000 (1)
	1,148,000	+ Patent Royalties	15,000 (1)
- Stock 31/12/2016	(75,000)(1)	+ Depreciation: Buildings	
+ Patent w/o [€160,000 ÷ 8 yrs.]	20,000 (1)	[80% of 2% of €800,000]	12,800 (1)
Figure transferred to Profit & Loss a/c	1,093,000 (1)	Figure transferred to Profit & Loss a/c	395,800 (1)
<b>W2</b> Distribution Costs	220,000 (1)	<b>W4</b> Other Operating Income	
+ Depreciation: Buildings		Rental Income	60,000 (1)
[20% of 2% of €800,000]	3,200 (1)	Commission	19,000 (1)
+ Depreciation: Vehicles		Patent Royalties	15,000 (1)
[20% of €230,000]	46,000 (1)	Figure transferred to Profit & Loss a/c	94,000 (1)
Figure transferred to Profit & Loss a/c	269,200 (1)	<b>W5</b> Investment Income	
		Quoted Investments	5,000 (1)
		Unquoted Investments	3,000 (1)
		Figure transferred to Profit & Loss a/c	8,000
		<b>W6</b> Interest Payable	
		Debenture Interest paid	12,000
		+ Debenture Interest due 31/12/2016	
		[8% of €450,000 - €12,000]	24,000
		Figure transferred to Profit & Loss a/c	36,000 (2)

## 3. Published Accounts (cont'd.)

(a) (cont'd.)

Notes to the Accounts:

(15)

1. Accounting Policy Notes for Tangible Fixed Assets and Stock (4)

- buildings were re-valued at the end of 2016 (1) and have been included in the accounts at their re-valued amount; vehicles are shown at cost
- depreciation is calculated in order to write off the value or cost of tangible fixed assets over their estimated useful economic life, as follows:
  - buildings: 2% per annum - straight line (1)
  - vehicles: 20% of cost (1)
- stocks: stocks are valued on a first-in first-out basis at the lower of cost and net realisable value (1)

2. Operating Profit (2)

- The operating profit is arrived at after charging:
 

	€
Depreciation on tangible fixed assets	•62,000 (½)
Patent amortised	•20,000 (½)
Directors' remuneration	80,000 (½)
Auditors' fees	18,000 (½)
- Allow full marks for student's own figure if consistent with previous work.

3. Financial Fixed Assets (2)

- Value of financial fixed assets on:
 

	<u>01/01/2016</u>	<u>31/12/2016</u>
	€	€
Quoted Investments	260,000	260,000 (½)
Unquoted Investments	100,000	100,000 (½)
	<u>360,000</u>	<u>360,000</u>
- the market value of the quoted investments on 31/12/2016 was €180,000 (½)
- the directors' valuation of the unquoted investments on 31/12/2016 was €70,000 (½)

4. Tangible Fixed Assets (7)

	<u>Land &amp; Buildings</u>	<u>Vehicles</u>	<u>Total</u>
	€	€	€
Cost/Valuation at 01/01/2016	940,000 (1)	230,000	1,170,000
Disposal	(140,000)(1)	—	(140,000)
Revaluation surplus at 31/12/2016	180,000 (1)	—	180,000
Valuation at 31/12/2016	<u>980,000</u>	<u>230,000</u>	1,210,000
Depreciation at 01/01/2016	92,000	22,000	114,000
Depreciation charge for the year	•16,000 (1)	•46,000 (1)	62,000
	108,000	68,000	176,000
Transfer on revaluation	•(108,000)(1)	—	(108,000)
Depreciation at 31/12/2016	<u>Nil</u>	<u>68,000</u>	<u>68,000</u>
Net book value at 01/01/2016	848,000	208,000	1,056,000
Net book value at 31/12/2016	980,000	162,000	•1,142,000 (1)

- Allow full marks for student's own figure if consistent with previous work.

**3. Published Accounts (cont'd.)**

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- (b) (i) State how a company would deal with a Contingent Liability which is possible but unlikely. (6)
- it is not necessary to make a provision in the accounts (2)
  - however, a note in the accounts (1) should show the nature of the liability (1), an estimate of the amount (1) and an opinion regarding the outcome (1)
- \*\* Figures in brackets show the breakdown of marks if answer incomplete.  
\*\* Accept student's own wording if equivalent meaning conveyed.
- (ii) What regulations must accountants comply with when preparing financial statements for publication? (4 × 1) (4)
- provisions of the Companies Acts //
  - International Accounting Standards (IAS) / Financial Reporting Standards (IFRS) //
  - Listing Rules of the Stock Exchange //
  - EU directives
- \*\* Do not accept the bodies or organisations alone which produce these regulations, *i.e.* government, accounting profession, Stock Exchange or European Union.